

**Romanian Government      MINISTRY OF ENERGY**

**PRIME-MINISTER'S CABINET**

## **LETTER OF EXPECTATION**

### **IN THE SELECTION PROCESS OF THE MEMBERS OF THE BOARD OF DIRECTORS OF THE NATIONAL COMPANY "NUCLEARELECTRICA" S.A. (SNN S.A.) AND OF ITS MANAGEMENT BOARD FOR A 4-YEAR PERIOD (2022 - 2026)**

The Romanian State through the Ministry of Energy, as a majority shareholder and public supervisory authority, through its corporate governance structure, establishes, in this letter, the shareholders' expectations regarding the performances of the National Company "Nuclearelectrica" S.A. and of its administration and management bodies, for a 4-year period.

These should be regarded in the context in which the State, through the Ministry of Energy, intends to continuously improve the performance and the governance of the public enterprises from its portfolio or, as well as the development of a cooperation relationship based on the mutual trust, in observance of the principles of transparency, responsibility, economic efficiency and profitability of the company.

This document was drafted in virtue of the provisions of Government Emergency Ordinance no. 109/2011 *regarding the corporate governance of public enterprises*, as amended and approved by Law no. 111/2016 and of the Government Decision no. 722/2016 for approving the Methodological norms for applying some provisions of the Government Emergency Ordinance no. 109/2011 *on corporate governance of public enterprises*.

#### **I.      The summary of the strategic context in which the National Company "Nuclearelectrica" S.A. operates (SNN S.A.)**

##### **I.1.    Presentation of the company**

The National Company "Nuclearelectrica" S.A. plays a strategic role in the national economy, since it is the sole electricity producer based on nuclear technology from Romania and one of the most important producers on the electricity market. Nuclear energy, the source of energy with low-carbon emissions, has a significant share in the total of the national electricity production (approximately 18%) and represents a basic component of the energy mix from Romania.

SNN S.A. produces electricity and thermal energy by operating by Cernavodă Nuclear Power Plant (NPP) Branch two nuclear reactors of CANDU6 type having an installed power of approximately 700 MW each (706.5 MWe Unit 1 and 704.8 MWe Unit 2).

Moreover, SNN S.A. produces, through the Nuclear Fuel Plant (NFP) Pitești Branch, the nuclear fuel needed for the operation of those two nuclear power units.

The company is listed on the Bucharest Stock Exchange (stock symbol SNN), and the shareholding structure is presented as follows: The Romanian State through the Ministry of Energy - 82.4981% of the shares and other shareholders - 17.5019%.

SNN S.A. owns two branches, without legal personality - Cernavodă NPP Branch, which operates Units 1 and 2 from NPP Cernavodă, as well as auxiliary services, and NFP Pitești Branch, a company qualified for producing nuclear fuel.

The National Company “Nuclearelectrica” S.A. is the sole shareholder of the project company EnergoNuclear, for acquiring reactors 3 and 4 from Cernavodă, of Nuclearelectrica Serv S.R.L. subsidiary, specialized in the provision, under safety and economic forecasting conditions, of services to the companies within SNN Group, as well as of Fabrica de Procesare a Concentratelor de Uraniu - Feldioara S.R.L., through which the processes of production, purification and conversion of the technical uranium concentrates shall be developed.

Moreover, the National Company “Nuclearelectrica” S.A. together with Nova Power & Gas, which is a member of E-INFRA, launched RoPower Nuclear SA, the project company for the development of small modular reactors in Romania.

SNN S.A. is a producer in line, a matter related to the technology used and which needs, for the best use of production, the predictability of the energy market, doubled by a stable and equitable regulatory framework for all producers, under specific nuclear safety conditions of facilities and environmental, population and own staff protection.

Among the main characteristics of SNN S.A. we can remind: high value of the utilization factor of the installed output, lack of CO<sub>2</sub> emissions, low dependence of the electricity cost produced on uranium price variations, relatively constant and predictable production costs, high technical level of training of operating staff.

## **I.2. Mission of SN “Nuclearelectrica” S.A.**

Within the context of the role that the nuclear power has in achieving the targets of decarbonization and ensuring energy transition towards an economy with carbon emission free energy, in conjunction with the strategic investment projects, the National Company “Nuclearelectrica” S.A. has the mission to generate clean energy at a standard of excellence.

## **I.3. Nuclear energy in Romania today**

Use of the nuclear technology resulted in the reduction of CO<sub>2</sub> emissions in Romania since the commissioning of U1 and U2 so far, by approximately 195 million tonnes. Annual reduction of CO<sub>2</sub> emissions with 2 nuclear units in operation, is estimated at approximately 10 million tonnes. Thus, the contribution of nuclear energy to the total energy without CO<sub>2</sub> emissions, in Romania, is approximately 33%.

At present, in Romania, by those 1,400 MWe installed power with a nuclear technology and by obtaining some high yields of use of those two units, approximately 10 TWh/year shall be generated.

The number of jobs created in the nuclear industry is around 11,000, and the annual contribution of the nuclear industry to the national GDP is EUR 590 million. The investments estimated to be developed in the nuclear industry until 2030 amount to approximately EUR 8-9 billion.

## **I.4. Role of SN “Nuclearelectrica” S.A. at present**

SNN S.A. an essential role in reaching Romania’s decarbonization targets:

- Reducing CO<sub>2</sub> emissions by 55 % by 2030

- Reducing dependence on imports from 20.85 % to 17.8 % by 2030
- The increase of the hydrogen share from the energy mix from 2% to 14% by 2050, according to UE

## **II. Overall view of the public tutelary authority and of shareholders regarding the goals of the National Company “Nuclearelectrica” S.A.**

According to the National Strategy for the development of the nuclear industry in Romania for the period 2022 - 2030, with the perspective 2050, in accordance with the main lines of action, convergent with those of the energy policy of the European Union, the general goals which shall be taken into consideration by SN Nuclearelectrica SA are:

1. Operation of nuclear units in nuclear safe and security conditions for the staff, population, environment and production assets;
2. Putting in place the organizational framework for the development of the group structure which should integrate all SNN subunits, branches and subsidiaries;
3. Continuously optimizing and increasing the efficiency of the organizational structure of the Company, developing and implementing the human resources strategy at the company level by reference to the activity volume, as well as to complexity of the investments projects developed;
4. Achieving the planned physical production of fuel bundles, in accordance with the approved revenues and expenditures budgets, respectively with the manufacture plans of Pitești Nuclear Fuel Plant Branch;
5. Ensuring an energy production at the level of the industry related standards being the first 25 % (top quartile-in WANO/INPO terminology) reactors in the world from the point of view of the capacity factor mediated during the commercial operation (since in service)
6. Capitalizing the electricity production, in conditions of economic efficiency and predictability;
7. Ensuring the financial performance of the Company in conditions of economic efficiency and medium-term and long-term sustainability;
8. Developing investment projects in compliance with the approved investments goals;
9. Implementation of projects to modernize, integrate and secure the information flow and IT infrastructure (hardware, software and cybersecurity);
10. Developing the internal control system within SN Nuclearelectrica S.A.;
11. Compliance with the principles of corporate governance and the code of ethics and integrity;
12. Consolidating the external communication strategy as the basis for a sustainable development, closely related to the acceptance and public support for nuclear energy in Romania.

## **III. Expectations of the Company’s shareholders**

### **1. Goals of the Ministry of Energy and of shareholders in relation to the communication with the Board of Directors of SNN S.A.**

Expectations of the Ministry of Energy and shareholders are in accordance with the provisions of the Government Ordinance no. 109/2011 on corporate governance of public undertakings, as subsequently amended and supplemented, as well as the information provided for in the

capital market laws, as the company's shares are listed on the Bucharest Stock Exchange. The frequency of reporting information is provided for by the applicable normative acts and, as the case may be, by the need for assessing the activity of the members of the Board of Directors and management board.

The majority shareholder, the Romanian State through the Ministry of Energy, intends to support the company activity in a constructive and transparent manner and closely work with the members of the Board of Directors and with the management to identify ways of improvement of performances of S.N. "Nuclearelectrica" S.A. and efficient management of the company resources in order to achieve the established goals.

## **2. Corporate governance**

In the context of the general principles of best practice found in the Community laws, accepted at the international level and in the European Union, S.N. "Nuclearelectrica" S.A. continuously adopted, designed, implemented, adjusted and kept in operation a managerial internal control system, as well as an active corporate governance policy in compliance with the Government Emergency Ordinance no. 109/2011 on corporate governance of public undertakings and the Corporate Governance Code of the Bucharest Stock Exchange.

Thus, the majority shareholder, the Romanian State through the Ministry of Energy, intends to develop the managerial internal control system in accordance with the standards promoted by the Government Secretariat General, as well as by assimilating the good international practices in the industry as a basis for ensuring transparency towards its own investors and shareholders, particularly, but also towards all stakeholders, in general.

That is why the majority shareholder of S.N. "Nuclearelectrica" S.A. intends that the actions for increase in the company transparency continue and in the future be aligned with the best practices, both from the perspective of regulations of the Bucharest Stock Exchange, and for the consolidation of the Company image as a reliable and long-term partner at national and international level.

## **3. Dividends policy of SNN S.A.**

The majority shareholder, the Romanian State, through the Ministry of Energy, sets up the expectation in relation to the increase of the company value on medium and long-term as a goal of any investor. The increase of the company value is needed to be achieved under conditions of operational excellence and nuclear safety.

The company management shall be concerned with maintaining a solid and tough structure of its financial position, which should keep the solvency and liquidity indicators within comfortable boundaries. Such requirements met shall allow as a priority to ensure the necessary funds for the achievement of the investments plan and, at the same time, for ensuring the distribution of dividends in accordance with the shareholders' expectation for such category of assets.

## **4. Investments policy of SNN S.A.**

The majority shareholder, the Romanian State, through the Ministry of Energy, is interested in and also concerned with the achievement of the investments projects of S.N. "Nuclearelectrica" S.A. which shall result, after the year 2032, in ensuring approximately 33% of the consumption needs and estimate of 66% of the energy without CO<sub>2</sub> emissions at the national level, as well as to avoid the release into the atmosphere of approximately 24 million tonnes of CO<sub>2</sub> annually.

Such results shall be obtained by achieving, but not limited to, the following categories of investments:

1. Projects needed to maintain the existing energy production capacity;
2. Projects needed to expand energy production capacity by approximately 2,000 MWe by the year 2032;
3. Projects needed to increase the footprint of the nuclear industry in Romania and in the region;
4. Projects needed for the safe management of the radioactive waste and used nuclear fuel.

Thus, during the next 4 years, the management of S.N. "Nuclearelectrica" S.A. shall manage and put in place the projects related to the above-mentioned investments objectives in stages, so that it contributes to their progress, respectively to the achievement of the national objectives for the period subsequently to the year 2032.

## **5. The internal and managerial control system**

### **5.1 Development of the internal control system and the consolidation of the function of managerial control**

In the context of the general principles of best practice found in the Community laws, accepted at the international level and in the European Union promoted by the Government Secretariat General, S.N. "Nuclearelectrica" S.A. continuously adopted, designed, implemented, adjusted and kept in operation a managerial internal control system, as well as an active risk management procedure.

The creation of a solid internal control system in accordance with the applicable laws represented a long-lasting process, which needed and further needs material efforts from all staff of the Company.

Within S.N. "Nuclearelectrica" S.A. the internal/managerial control system is organized and adjusted to the specificity and size of the company, depending on the internal control standards and in relation to the management systems put in place, so that the compliance with the legal requirements, rules and standards applicable to the activity be ensured (Government Ordinance no. 119/1999, republished, as subsequently amended and supplemented and the managerial internal control Code of public entities - the latest form approved by the Order of the Government Secretariat General no. 600/2018, Law no. 111/1996, NCNAC Rules etc.).

Considering that within S.N. "Nuclearelectrica" S.A., due to the specificity of the activities carried out, there is one of the most complex control environments, the internal control system should be developed and adjusted by assimilating good practices in the nuclear industry so that it becomes a useful managerial instrument in order to reasonably ensure that the management goals are achieved, that interests and expectations of shareholders are complied with.

Thus, in accordance with the development perspective of the group structure, the adequacy of the architecture of the internal control system shall be followed up with the extension and alignment of the regulatory framework at the level of all subunits/subsidiaries, including with the development of the control and reporting capabilities at the level group, as a basis for SNN S.A. exercising the control of decisions and of operations developed within the affiliated companies.

## **5.2 Risks management**

Starting from the activity complexity, SNN S.A. could face risks arising from various areas and fields, such as operational risk, market/price risk, credit/counterparty risk, competition risk, macroeconomic and legislative risks, risks related to the investments/ maintenance/ refurbishment works, risk related to the lack of specialized workforce.

The Board of Directors together with the management board should ensure the maintenance of a risk management process by which risk factors should continuously be identified and followed up with, the reasons of their appearance should be identified and the actions for dealing with them should be established, for the purpose of reducing the exposure degree of SNN S.A. to the effects of certain inherent risks. The Company should approach the risk management proactively, by identifying and dealing with the risk factors, in order to fight against the possible losses and reduce risks at an acceptable level.

## **5.3 Ethics, integrity**

As regards corporate ethics, integrity and responsibility, S.N. "Nuclearelectrica" S.A. shall maintain a sustained and formalized activity of all staff to become acquainted with the principles and provisions of the procedural framework related to the implementation of the National Anticorruption Strategy, maintaining organizational integrity and the procedural internal framework related to the integrity whistle-blowers.

## **5.4 Monitoring the internal control system by an internal audit**

The general objective of the public internal audit mainly aims at the improvement of the management of entities/structures audited by supplying:

- a) assurance activities which represent objective examinations of the evidence, made for the purpose of providing public entities with an independent and objective assessment of the risk, control and governance management processes;
- b) advisory activities, intended to add value and improve the governance processes within SNN.

## **5.5 General expectation**

### **5.5.1 Environmental protection**

The Board of Directors shall ensure that SNN S.A. will develop a long-term program for ensuring compliance with the regulations in the environmental protection field.

### **5.5.2 Social responsibility**

The majority shareholder, the Romanian State through the Ministry of Energy, intends to adopt a social corporate responsibility policy intended to establish the strategic orientation and the priority directions of the company involvement in philanthropic, charitable and humanitarian actions for the community benefit both in areas close to the nuclear facilities operated by SNN (Cernavodă, Pitești), and at the national level.

We consider that the sustainable development of the company and the sustainability of its long-term development projects are closely related to the development, education, information, acceptance and public support for the nuclear energy in Romania.

This document was drafted in virtue of the provisions of Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as amended and approved by Law no. 111/2016 and of the Methodological norms for applying Government Emergency Ordinance no. 109/2011, as subsequently amended and supplemented, approved by the Government Decision no. 722/2016 and represent the goals of the public tutelary authority and of SNN shareholders for the Company development in the next 4 years.

The goals indicated in the Letter of Expectation shall be described in detail in the declarations of intent of the candidates for the position of director and in the Management Plan to be drafted by them.